

MINUTES
ECONOMIC POLICY COUNCIL

August 9, 1985
1:30 p.m.
Cabinet Room

Attendees: The President, the Vice President, Messrs. Baker, Shultz, Weinberger, Meese, Block, Baldrige, Regan, Yeutter, McFarlane, Ford, Moore, Darman, Kingon, McAllister, Porter, Keel, Buchanan, Oglesby, Rollins, Speakes, Svahn, Thomas, Dawson, Khedouri, McMinn, Robinson, Smart, Smith, Stucky, and Wallis, and Ms. Dole.

1. Section 201 Nonrubber Footwear Petition

Ambassador Yeutter noted that proposals for domestic footwear protection have a long history: in 1975, President Ford choose not to provide any relief to the domestic footwear industry; in 1977 the Carter Administration negotiated orderly marketing arrangements (OMAs) with major shoe exporting nations. Since 1980, foreign import penetration has increased from 50 percent of the domestic market to 77 percent. A year ago, the International Trade Commission (ITC) found no injury from foreign footwear imports, but Congress then changed the criteria that the ITC must use in evaluating the need for import relief, and the ITC found a case for granting import relief in May 1985 after the domestic industry applied for relief again.

Ambassador Yeutter stated that the Trade Act of 1974 requires the President to grant relief unless he finds it is not in the national economic interest to do so. He explained that the Economic Policy Council agrees that there is no good economic case for relief, even with the import penetration level of 77 percent.

Mr. Yeutter outlined the options prepared for the President:

Option 1 would link a decision to provide no import relief with an announcement that the President is self-initiating Section 301 foreign unfair trading practice investigation, including the specifics of the first 301 investigation. This option would diminish criticism of the footwear decision and counter criticisms that the Administration has no trade policy, without imposing costs on consumers or on our major shoe trading partners.

Option 2 is the ITC recommended global quota, which the President under law must consider.

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Option 3 is a 30 percent tariff, which would be less economically damaging than the ITC recommended quota. A tariff would not take the competitiveness out of the shoe market, although it would lead to higher shoe prices. The Federal Government also would receive the revenues from the tariff, unlike the quota case in which foreign importers would receive the economic rents.

Ambassador Yeutter pointed out that the Congressional implications of the footwear decision are significant. He noted that the footwear case is perceived by most Members of Congress as a sound economic case, particularly because of the ITC finding and the 77 percent import penetration level. Some probable Congressional responses to a decision against relief will include charges by Administration opponents that Section 201 of the Trade Act of 1974 is being ignored and complaints by allies that the failure to act will lead to an avalanche of protectionist legislation.

He reported that the domestic shoe industry, which earlier was opposed to tariffs, is now willing to support them. Ambassador Yeutter stated that the major disadvantages of the tariff choice are the precedent it would set and the signal it would send for more protectionism, and the burden it would place on shoe exporting countries with large external debts such as Brazil.

The President noted that some additional disadvantages of providing import relief are that it costs more to protect jobs than those jobs pay; families will have to pay more for shoes; and our leadership in promoting free trade will be diminished.

Secretary Baker pointed out that the Administration faces a tactical decision on how to preserve free trade. He stated that a major part of that approach must include correcting the misperception that the Administration has no trade policy. Option 1 includes a statement that the President will aggressively enforce fair trade laws, including self-initiating Section 301 investigation.

Several members of the Council expressed strong support for self-initiating Section 301 investigations. Ambassador Yeutter stated that there are several good cases of unfair foreign trading practices, including Taiwan's failure to protect intellectual property rights and Japan's closing of its soda ash market to the U.S.

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Secretary Baldrige pointed out that many in Congress do not see the footwear case as protectionist because the shoe industry went through the Section 201 process and shoe imports make up 77 percent of the domestic market. He stated that because the President has turned down the previous three Section 201 recommendations for relief, a decision not to provide relief to the domestic footwear industry may provoke Congress into attempting to take away the President's discretion in 201 cases. He also cautioned that self-initiating several Section 301 cases may not have as strong an effect as many anticipated.

The Council discussion focused on the tactical value of the footwear petition as a vehicle for preserving free trade by diminishing the intensity of protectionist sentiment in Congress. Secretary Shultz argued that placing a tariff on footwear imports could serve as a justification for placing a tariff on many products and therefore would prove a dangerous precedent, encouraging more protectionism.

The Council also discussed the tactical importance of a pro-consumer stance. Several members of the Council argued that the President could make a strong case on behalf of consumers. Mr. Moore pointed out that the ITC recommendation would cost \$26,000-\$27,000 a year to protect jobs paying only \$14,000.